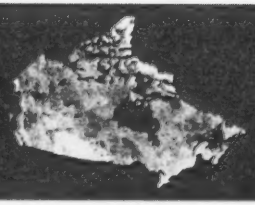


Canadian Natural Gas

›› Monthly Market Update

August 2008

›› Natural Gas Division
Petroleum Resources Branch
Energy Sector

Natural Resources Canada | Ressources naturelles Canada

Canada

Foreword

The *Canadian Natural Gas: Monthly Mar* *ket Update* is a monthly working paper prepared by the N Natural Gas Division of Natural Resources Canada.

Structure and Format of the Report

This six page report provides the most re cently available data on natural gas prices and on key fundame entals affecting prices.

To the right is an Executive Summary, wh ich provides a brief, up-to-date overview of natural gas marke t fundamentals. For those interested in reading ahead, the re hainder of the report consists of graphs, with limited text and c omments associated with each. The text provides a short desc ription of the natural gas market fundamental, followed by a sir nple comparative analysis (i.e., year-over-year or month-ov er-month) of the data contained within the figure.

Beginning in January 2005, this report has s been formatted in landscape orientation to be more easily re ad on a computer screen.

Sources

Various sources are used in developing th is report, including Statistics Canada, Canadian Enerdata, Da ily Oil Bulletin, the National Energy Board and GLJ Energy P ublications. *Data is subject to revision.*

If you have any comments, suggestions or questions please contact Ryan Creighton at 992-1023, or by email at rcreight@nrcan.gc.ca

Executive Summary

The chart below depicts percentage changes (given the most recently available month of data) in natural gas prices, heating degree days (weather), natural gas domestic sales and exports, imports, storage, drilling, and natural gas production.

Natural Gas Market Fundamental	Percentage Change	
	Year-to-Year	Month-to-Month
Prices	76%	-16%
Heating Degree Days	26%	-70%
Production	-10%	-7%
Sales	3%	-21%
Exports	-6%	6%
Imports	3%	-29%
Storage	-12%	22%
Drilling	-1%	112%

PRICES: CDN $9.10/GJ in August 2008; an increase of 76%

HDDs: 58 in June 2008; an increase of 26%

PRODUCTION: 412 Bcf in June 2008; a decrease of 10%.

SALES: 139 Bcf in June 2008; an increase of 3%

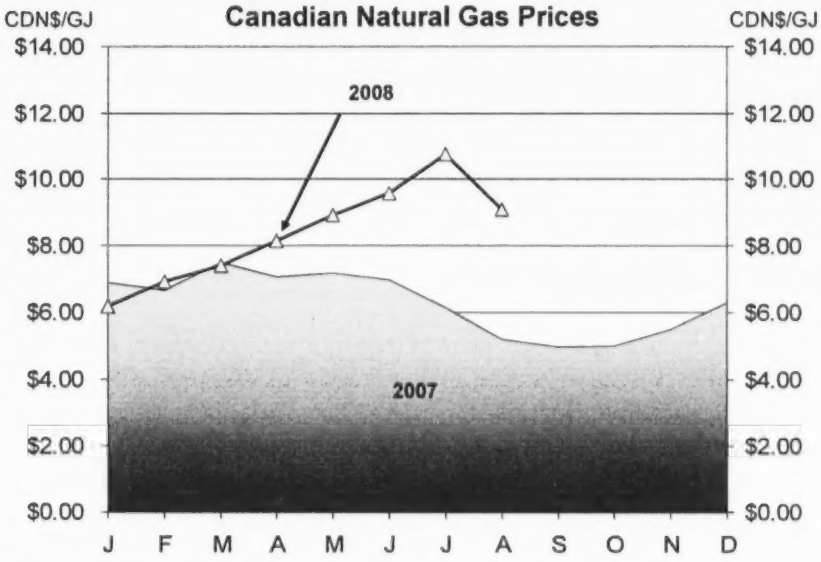
EXPORTS: 274 Bcf in June 2008; a decrease of 6%

IMPORTS: 30 Bcf in June 2008; an increase of 3%

STORAGE: 436 Bcf in August 2008; a decrease of 12%

DRILLING: 806 in August 2008; a decrease of 1%

Figure 1

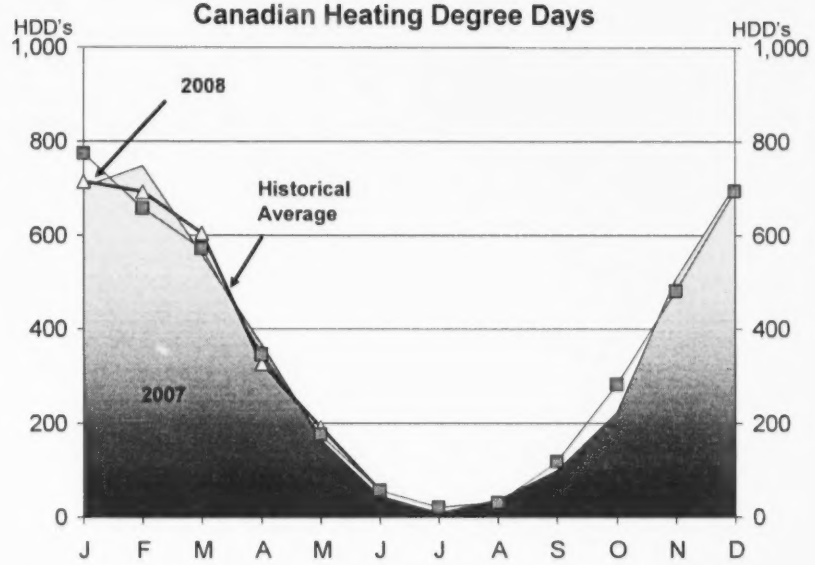


Source: GLJ Energy Publications **Note:** Canadian price is the Alberta price at the AECO hub.

Figure 1 illustrates the price of natural gas at the major Canadian pricing point – the Intra-Alberta market. The price is for gas delivered under a 30-day contract. The Intra-Alberta market is formed by gas delivered to pipelines in Alberta. Gas changes hands via Nova Inventory Transfers (NIT), exchanges at the AECO storage hub, or sales facilitated by the Natural Gas Exchange (NGX). This is a commodity price – a wholesale price in the producing area. Consumer (or "burner tip") prices will also include pipeline transmission and distribution costs, which vary across Canada. Natural gas is commonly measured in gigajoules (GJ) or cubic metres. A gigajoule is an energy unit, which equates to about 27 cubic metres of natural gas.

Canadian natural gas commodity prices were CDN $9.10/GJ in August 2008, 16% lower than the previous month and 76% higher than August 2007.

Figure 2



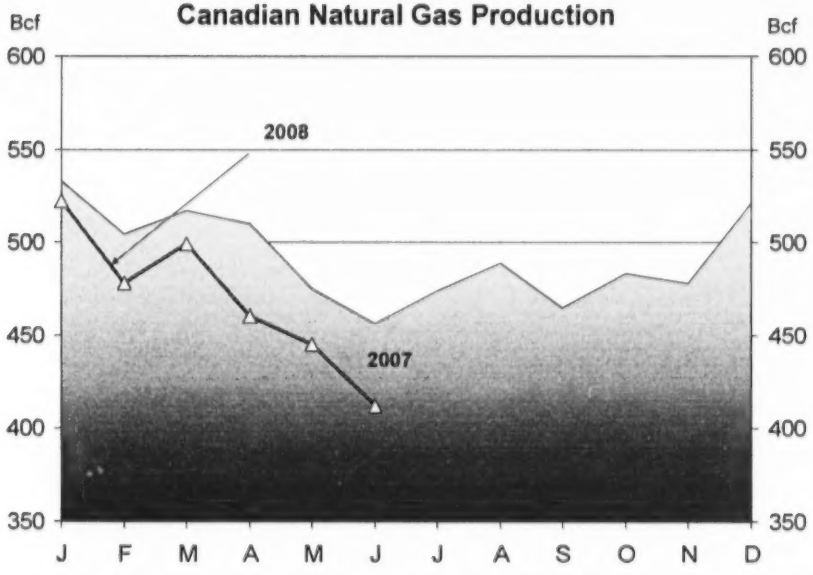
Source: Statistics Canada

Figure 2 shows Canadian heating degree days (HDDs), which are a measure of how cold it is. The more HDDs in any season, the greater is natural gas demand for space heating. If the winter is unusually cold, demand will respond accordingly and natural gas prices will tend to be stronger. However, if the winter is mild, demand will be weaker, which will tend to moderate prices.

In June 2008, there were 58 HDDs, 26% more than June 2007. Temperatures in June 2008 were normal.

Figure 3

Canadian Natural Gas Production



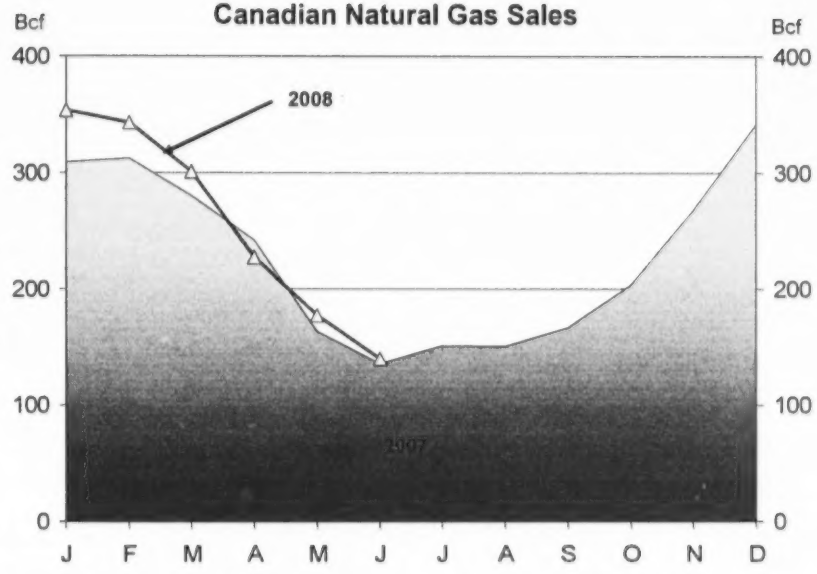
Source: Statistics Canada **Note:** Most recent month is a preliminary figure.

Figure 3 shows marketable natural gas production in Canada. Marketable natural gas is the gas available for consumption after processing and excludes producer or plant uses.

Marketable natural gas production for June 2008 was 412 Bcf, 6% lower than June 2007.

Figure 4

Canadian Natural Gas Sales



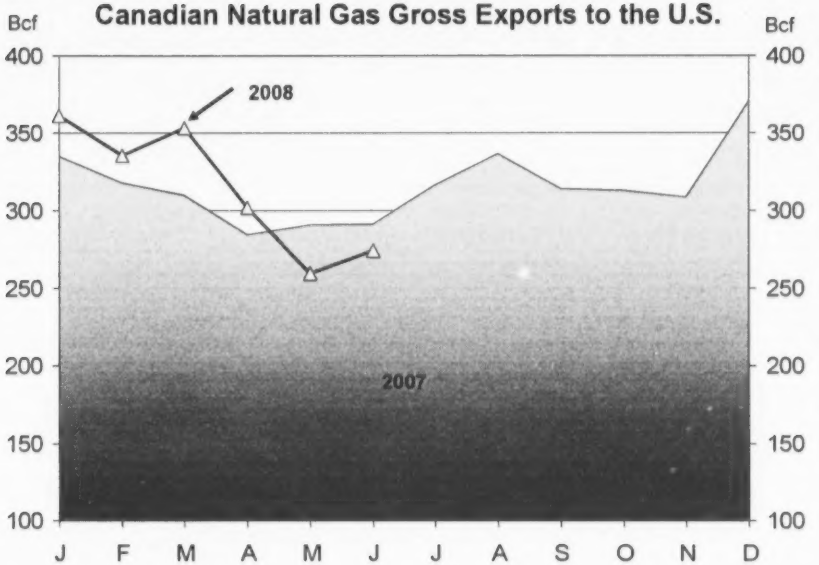
Source: Statistics Canada **Note:** Most recent month is a preliminary figure.

Figure 4 illustrates total Canadian natural gas sales. Sales include all natural gas sold to residential and commercial users (for space and water heating, cooking, etc), industries and electricity generating units in Canada. The totals do not include consumption by the natural gas industry itself (e.g., pipeline compressor fuel).

Natural gas sales to Canadian consumers in June 2008 were 139 Bcf, 3% more than June 2007.

Figure 5

Canadian Natural Gas Gross Exports to the U.S.



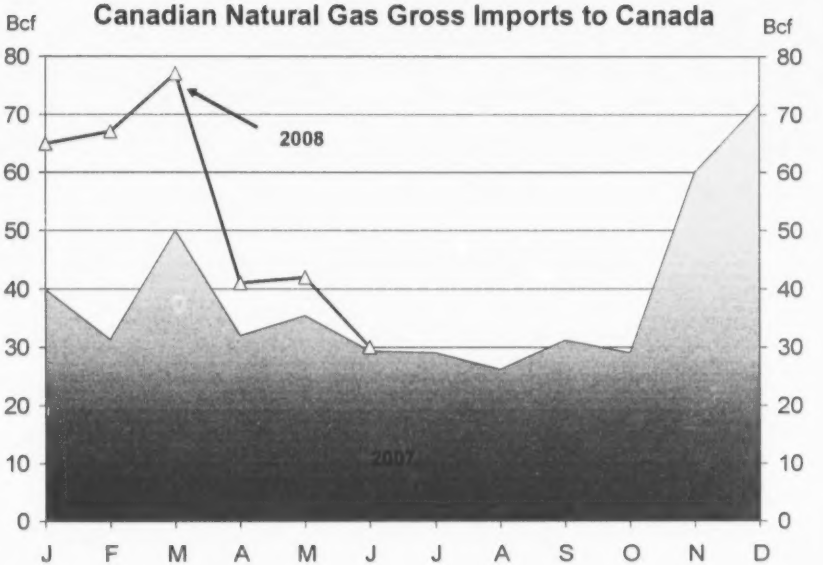
Source: National Energy Board

Figure 5 illustrates natural gas exports to the U.S. Canadian natural gas requirements are met entirely by domestic sources, as Canada produces natural gas in excess of what is required for domestic consumption. In comparison, the U.S. consumes more natural gas than it produces, therefore natural gas imports are required to make up the difference. Typically, Canada exports between 50 and 60 per cent of its gas production.

In June 2008, natural gas exports to the U.S. were 274 Bcf, 6% lower than June 2007.

Figure 6

Canadian Natural Gas Gross Imports to Canada



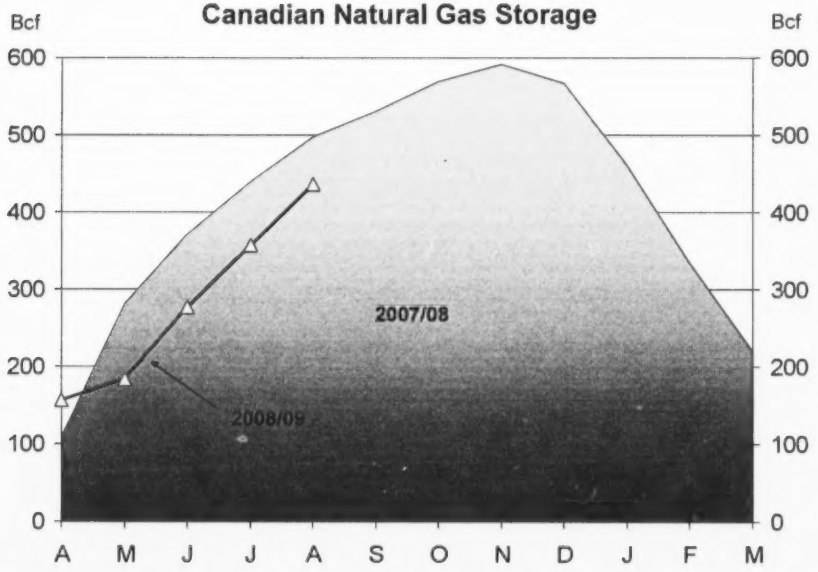
Source: National Energy Board

Figure 6 illustrates natural gas imports to Canada. Most natural gas is imported into Canada through major import points in southern Ontario. Imports into southern Ontario will likely rise in the future, as the province purchases more gas from the rest of North America due to flat production in the Western Canadian Sedimentary Basin. Presently, import volumes are significantly less than export volumes, and Canada remains a net exporter of natural gas.

In June 2008, natural gas imports to Canada were 30 Bcf, 3% higher than June 2007.

Figure 7

Canadian Natural Gas Storage



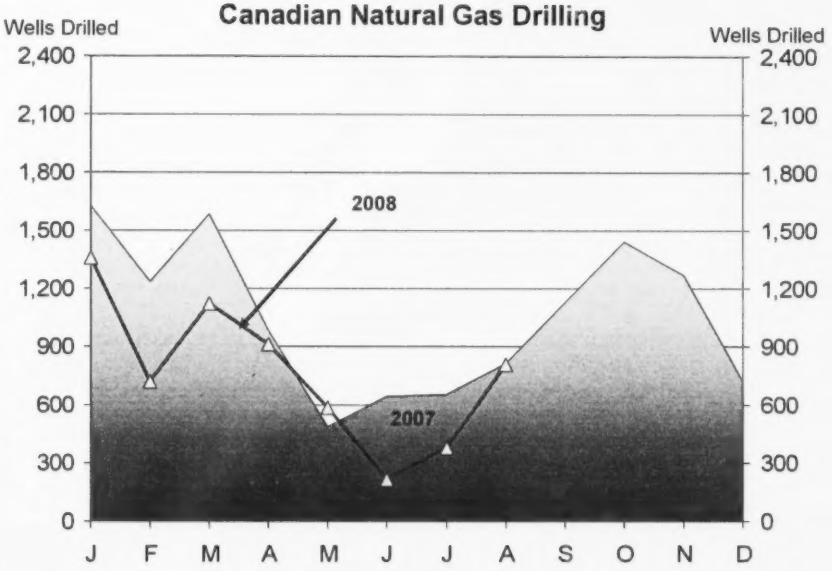
Source: Canadian Enerdata

Figure 7 indicates natural gas storage levels in Canada. The amount of gas in storage generally follows a seasonal pattern. In the summer, when natural gas demand is low, gas is injected into storage. Storage volumes peak in the fall. In winter, volumes are drawn down, reaching a low point in the spring.

Canadian natural gas storage inventories increased 79 Bcf during the month of July 2008. Storage levels at the beginning August 2008 were 436 Bcf, 19% lower than the year prior.

Figure 8

Canadian Natural Gas Drilling



Source: Daily Oil Bulletin

Figure 8 depicts the number of natural gas well completions in Canada. There is a time-lag between drilling a gas well and starting production, due to the work necessary to connect the new well to the pipeline grid. Drilling is therefore a good indicator of future natural gas supply.

There were 806 natural gas wells drilled in August 2008, a decrease of 1% from August 2007.

Bibliography and Data Sources

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